

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 ABF-01 L-03 A-01 AID-05 H-02 EB-07

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 5790

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EO 11652: N/A

TAGS: AGAO, KS

SUBJECT: GAO REPORT: 1971 TEXTILE AGREEMENT AND PL 480 UNDER-
STANDINGS

REF: STATE 049827

1. WITHOUT THE FULL TEXT IT IS DIFFICULT TO COMMENT ON
THE ARGUMENT MADE BY THE GAO. HOWEVER, IT SEEMS TO US
THREE RESPONSES ARE RELEVANT AND MUTUALLY SUPPORTING.

2. WE BELIEVE A COMMITMENT IS A COMMITMENT. IT WAS
GIVEN IN ORDER TO INDUCE THE ROKG TO AGREE TO CERTAIN
RESTRAINSTS. THE ROKG KEPT ITS PART OF THE BARGAIN,
WHILE WE HAVE YET TO MAKE GOOD ON OURS. IF THE BALANCE
OF PAYMENTS COST OF THE RESTRAINSTS HAD BEEN GREATER,
WOULD THE ROKG HAVE HAD THE "RIGHT" TO BACK OUT OF
THE TEXTILE AGREEMENT OR TO EXPECT ADDITIONAL COMPENSATION
AS A MATTER OF RIGHT?

3. ON THE BASIS OF NEED, MOREOVER, WE BELIEVE THE
CASE FOR CONTINUED PL 480 SUPPORT IS STRONG. WHILE
KOREA HAS GROWN RAPIDLY, IT STILL HAS VEAVY UNDER-
EMPLOYMENT AND A RAPIDLY GROWING LABOR FORCE, SWOLLEN
TEMPORARILY BY THE POST-KOREAN WAR BABY BOOM. ITS
SAVINGS ARE HIGH (18 PLUS PERCENT OF GNP) BUT IT
HAS ALSO BORROWED HEAVILY ABRAOD, MOSTLY ON COMMERCIAL
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TERMS, TO PROVIDE THE ADDITIONAL FUNDS

NECESSARY TO INVEST THE EQUIVALENT OF MORE THAN 25 PERCENT OF ITS GNP. THE RESULTING HIGH BALANCE OF PAYMENTS DEFICIT IS THUS NOT SPENT ON LAVISH CONSUMPTION, BUT ON BUILDING FOR THE FUTURE. MORE-OVER, THIS ANALYSIS TAKES NO ACCOUNT OF THE MILITARY BURDEN, WHICH IS ANOTHER 6 PERCENT OF GNP AND WILL GROW UNDER CURRENT PLANS.

4. ULTIMATELY THE JUSTIFICATION FOR CONTINUED B/P SUPPORT TO THE ROKG RESTS ON U.S. NATIONAL INTERESTS HERE. THEY REMAIN LARGE AND OBVIOUS, DESPITE CONSTANT SNIPING, WHICH WOULD IMPLY OTHERWISE. WE ARE CONCERNED THAT THE OVERALL GAO REPORT AS PLAYED IN THE PRESS SEEMS TO CAST A BAD LIGHT ON THE ROKG. WE THINK THAT QUESTIONING THE PL 480 COMMITMENT IN PARTICULAR AND IN A SEEMINGLY REASONABLE WAY AS THE GAO HAS, SUGGESTS THE ROKG HAS DELIBERATELY MISLED OR CHEATED THE USG. WE WOULD HOPE THAT A STRONG REASSERTION OF THOSE U.S. INTERESTS IN KOREA, AS WELL AS THE STATEMENT OF THE PARTICULAR COMMITMENT AND KOREA'S NEED FOR BALANCE OF PAYMENTS SUPPORT WOULD GO SOME WAY TO OFFSETTING THE DAMAGE.
SNEIDER

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